

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 0-19311

IDEC PHARMACEUTICALS CORPORATION

-----  
(Exact name of registrant as specified in its charter)

California

33-0112644

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

11011 Torreyana Road, San Diego, CA 92121

-----  
(Address of principal executive offices) (Zip code)

(619) 550-8500

-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of April 30, 1997, the Registrant had 18,698,376 shares of its common stock, no par value issued and outstanding.

IDEC PHARMACEUTICALS CORPORATION

FORM 10-Q -- QUARTERLY REPORT  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1997

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.
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IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	March 31, 1997	December 31, 1996
	----- (unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,855	\$ 25,337
Securities available-for-sale	52,228	53,390
Current portion of note receivable	847	804
Contract research revenue receivables	1,778	3,635
License fees receivable	4,075	--
Due from related party	--	1,532
Inventories	6,198	4,384
Prepaid expenses and other current assets	2,622	2,533
	-----	-----
Total current assets	85,603	91,615
Property and equipment, net	23,352	21,453

Note receivable, less current portion	213	445
Deposits and other assets	390	316
	-----	-----
	\$ 109,558	\$ 113,829
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	\$ 3,752	\$ 3,830
Accounts payable	1,787	3,106
Accrued expenses	6,080	6,751
	-----	-----
Total current liabilities	11,619	13,687
Notes payable, less current portion	4,178	5,015
Deferred rent	1,710	1,513
Due from related party	1,000	1,000
Shareholders' equity:		
Convertible preferred stock, no par value	19,649	26,586
Common stock, no par value	156,261	148,597
Additional paid-in capital	1,283	1,283
Unrealized losses on securities available-for-sale	(95)	(37)
Accumulated deficit	(86,047)	(83,815)
	-----	-----
Total shareholders' equity	91,051	92,614
	-----	-----
	\$ 109,558	\$ 113,829
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
(unaudited)

	Three months ended March 31,	
	1997	1996
	-----	-----
Revenues:		
Contract research revenues	\$ 2,664	\$ 2,936
License fees	4,000	7,000
	-----	-----
	6,664	9,936
Operating expenses:		
Research and development	7,474	5,641
Selling, general and administrative	2,208	1,854
	-----	-----
	9,682	7,495
	-----	-----
Income (loss) from operations	(3,018)	2,441
Interest income (expense), net	786	(594)
	-----	-----
Net income (loss)	\$ (2,232)	\$ 1,847
	=====	=====
Net income (loss) per share	\$ (0.12)	\$ 0.10

	=====	=====
Shares used in computing net income (loss) per share	18,195	19,121

See accompanying notes to condensed consolidated financial statements.

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IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(unaudited)

	Three months ended March 31,	
	1997	1996
Cash flows from operating activities:		
Net cash used in operating activities	\$ (5,644)	\$ (3,394)
Cash flows from investing activities:		
Purchase of property and equipment	(2,755)	(258)
Purchase of securities available-for-sale	(14,361)	(5,977)
Sales and maturities of securities available-for-sale	15,465	3,830
Net cash used in investing activities	(1,651)	(2,405)
Cash flows from financing activities:		
Proceeds from notes payable	--	779
Payments on notes payable	(914)	(847)
Proceeds from issuance of common stock	727	563
Proceeds from issuance of convertible preferred stock	--	5,000
Net cash provided by (used in) financing activities	(187)	5,495
Net decrease in cash and cash equivalents	(7,482)	(304)
Cash and cash equivalents, beginning of period	25,337	18,828
Cash and cash equivalents, end of period	\$ 17,855	\$ 18,524

See accompanying notes to condensed consolidated financial statements.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information at March 31, 1997, and for the three-month periods ended March 31, 1997 and 1996, is unaudited. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for the interim

periods presented. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with IDEC Pharmaceuticals Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, which was filed with the United States Securities and Exchange Commission on March 31, 1997.

#### Net Income (Loss) Per Share

Net income per share is computed in accordance with the treasury stock method. Net income per share is based upon the weighted average number of common shares and dilutive common stock equivalents during the period in which they are outstanding. Common stock equivalents include outstanding stock options under the Company's stock option plans, outstanding warrants to purchase the Company's common stock and outstanding convertible preferred stock convertible into shares of the Company's common stock. Dual presentation of primary and fully diluted net income per share is not shown on the face of the statements of operations because the differences are insignificant. Computations of net loss per share use the weighted average number of common shares outstanding. Common equivalent shares from common stock options, warrants and convertible preferred stock are excluded from the computations as their effect is anti-dilutive.

On March 3, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("Statement No. 128"). Statement No. 128 supersedes Accounting Principles Board Opinion No. 15 ("APB No. 15") and replaces "primary" and "fully diluted" earnings per share ("EPS") under APB No. 15 with "basic" and "diluted" EPS. Unlike primary EPS, basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Dilutive EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS. Statement No. 128 is effective for years ending after December 15, 1997. The Company is currently evaluating the impact of the implementation of Statement No. 128.

#### NOTE 2. CONTINGENCIES

In February 1997, the Company acquired worldwide rights from Pharmacia & Upjohn S.p.A. to 9-aminocamptothecin, a broad spectrum anti-cancer agent. Under the terms of the agreement, the Company will reimburse Pharmacia & Upjohn for a portion of their development costs by making an initial payment of \$3.0 million. No royalties are payable to Pharmacia & Upjohn under the agreement. Completion of the transaction is awaiting approval by the United States Federal Trade Commission and, therefore, no costs to acquire the technology rights have been included in the condensed consolidated financial statements as of March 31, 1997.

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#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

##### OVERVIEW

IDEC Pharmaceuticals Corporation (the "Company") is primarily engaged in the research and development of targeted immunotherapies for the treatment of cancer and autoimmune and inflammatory diseases. To date, the Company has not received any revenues from the commercial sale of its products. The Company has funded its operations primarily through the sale of equity securities as well as through contract research and license fee revenues received in connection with collaborative arrangements entered into with the Company's strategic partners.

The Company has incurred increasing annual operating expenses and, as the Company prepares for product commercialization, it expects such trends to continue. The Company has incurred annual operating losses since its inception in 1985, and anticipates that such operating losses will continue for at least the next one to two years. As of March 31, 1997, the Company had an accumulated deficit of \$86.0 million.

##### RESULTS OF OPERATIONS

License fees for the three months ended March 31, 1997 totaled \$4.0 million,

compared to \$7.0 million for the comparable period in 1996. License fees for the quarter ended March 31, 1997 consisted of an initial payment from Boehringer Ingelheim GmbH for the license of the Company's proprietary vector technology for high expression of recombinant proteins in mammalian cells. License fees for the three months ended March 31, 1996 include \$4.5 million received for a parallel vector technology license to Chugai Pharmaceutical Co., Ltd., \$1.5 million from Genentech, Inc. for the expansion of its collaboration with the Company to include two radioconjugates, IDEC-Y2B8 and IDEC-In2B8 for the treatment and imaging, respectively, of B-cell lymphomas and \$1.0 million from Seikagaku Corporation for the achievement of a product development milestone event. The Company continues to pursue other collaborative and license arrangements; however, no assurance can be given that discussions in this regard will result in any such arrangements or that the Company will receive significant revenues from any such collaborative or license arrangements.

Research and development expenses totaled \$7.5 million for the three months ended March 31, 1997, compared to \$5.6 million for the comparable period in 1996. The change in research and development expenses is primarily due to increased personnel and other costs related to submission of a Biologics License Application for the Company's lead product candidate, IDEC-C2B8 (rituximab), increased costs for additional leased office and warehouse facilities and a decrease in clinical costs due to the completion of a Phase III trial for IDEC-C2B8 in 1996. The Company expects to continue incurring substantial additional research and development costs in the future, due to expansion or addition of research and development programs; patent- and regulatory-related costs; preclinical and clinical testing of the Company's various products under development; production scale-up and manufacturing of products used in clinical trials; and manufacturing costs related to IDEC-C2B8.

General and administrative expenses totaled \$2.2 million for the three months ended March 31, 1997, compared to \$1.9 million for the comparable period in 1996. General and administrative expenses increased in 1997 due to higher personnel costs to support expanded manufacturing operations and initial costs incurred for the creation of a marketing and sales organization. General and administrative costs necessary to support expanded manufacturing capacity, expanded clinical trials, research and development and the creation of a marketing and sales organization are expected to increase in the foreseeable future.

Net interest income totaled \$0.8 million for the three months ended March 31, 1997, compared to net interest expense of \$0.6 million during the comparable period in 1996. The increase in net interest income in 1997 from net interest expense in 1996 is due to higher balances in cash, cash equivalents and securities available-for-sale, a decrease in noncash interest charges for common stock warrants issued in connection with certain debt financings and a decrease in interest expense due to lower balances in notes payable.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations and capital expenditures since inception principally through the sale of equity securities, license fees, contract research revenues, lease financing transactions and interest income. The Company expects to finance its current and planned operating requirements principally through cash on hand and with funds from existing collaborative agreements and contracts which the Company believes will be sufficient to meet its near-term operating requirements. Existing agreements and contracts, however, could be canceled by the contracting parties. In addition, the Company may pursue additional capital through a combination of new collaborative agreements, strategic alliances and equity and debt financings. However, no assurance can be provided that additional capital will be obtained through these sources on favorable terms or at all. Should the Company not enter into any such arrangements, the Company anticipates its cash, cash equivalents and securities available-for-sale, together with the existing agreements and contracts, will be sufficient to finance the Company's currently anticipated needs for operating and capital expenditures through early commercialization of its first product. If adequate funds are not available from additional sources of financing, or if the commercialization of IDEC-C2B8 is delayed, the Company's business could be adversely affected.

The Company's working capital and capital requirements will depend upon

numerous factors, including the progress of the Company's preclinical and clinical testing; manufacturing; research and development programs; timing and cost of obtaining regulatory approvals; levels of resources that the Company devotes to the development of manufacturing and marketing capabilities; technological advances; status of competitors; and the ability of the Company to establish collaborative arrangements with other organizations.

Until required for operations, the Company's policy under established guidelines is to keep its cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, United States government instruments and other readily marketable debt instruments, all of which are investment-grade quality.

At March 31, 1997, the Company had \$70.1 million in cash, cash equivalents and securities available-for-sale compared to cash, cash equivalents and securities available-for-sale of \$78.7 million at December 31, 1996. Sources of cash, cash equivalents and securities available-for-sale during the three months ended March 31, 1997 include \$0.7 million from the exercise of employee stock options and from common stock issued under an employee stock purchase plan. Uses of cash, cash equivalents and securities available-for-sale during the three months ended March 31, 1997, included \$5.6 million used in operations, \$2.8 million used for leasehold improvements for clinical manufacturing, additional office and warehouse facilities and to purchase capital equipment and \$0.9 million used to pay notes payable.

In February 1997, the Company acquired worldwide rights from Pharmacia & Upjohn S.p.A. to 9-aminocamptothecin, a broad spectrum anti-cancer agent. Under the terms of the agreement, the Company will reimburse Pharmacia & Upjohn for a portion of their development costs by making an initial payment of \$3.0 million. No royalties are payable to Pharmacia & Upjohn under the agreement. Completion of the transaction is awaiting approval by the United States Federal Trade Commission and, therefore, the acquisition costs for these technology rights have not been included in the condensed consolidated financial statements as of March 31, 1997.

In August 1995, the Company completed receipt of funding under a \$10.0 million lease financing agreement to finance both equipment and facility improvements. Terms of the financing agreement require final principal payments of \$1.1 million and \$0.4 million in July 1998 and January 1999, respectively.

This quarterly report contains predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties. While this outlook represents our current judgment on the future direction of the business, such risks and uncertainties could cause actual results to differ materially from any future performance suggested above. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof other than as required by the Securities and Exchange Act of 1934.

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## RISK FACTORS

### Lengthy Regulatory Process; No Assurance of Regulatory Approvals

The testing, manufacturing, labeling, advertising, promotion, export, and marketing, among other things, of IDEC Pharmaceuticals Corporation's ("IDEC Pharmaceuticals" or the "Company") products are subject to extensive regulation by governmental authorities in the United States and other countries. In the United States, pharmaceutical products are regulated by the United States Food and Drug Administration ("FDA") under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, with the exception of 9-aminocamptothecin, the Company believes that its products will be regulated by the FDA as biologics. Manufacturers of biologics may also be subject to state regulations.

The steps required before a biologic may be approved for marketing in the United States generally include (i) preclinical laboratory tests and animal tests, (ii) the submission to the FDA of an Investigational New Drug application ("IND") for human clinical testing, which must become effective before human clinical trials may commence, (iii) adequate and well-controlled human clinical

trials to establish the safety and efficacy of the product, (iv) the submission to the FDA of a Biological License Application ("BLA"), (v) FDA review of the BLA, and (vi) satisfactory completion of a FDA inspection of the manufacturing facility or facilities at which the product is made to assess compliance with Current Good Manufacturing Practices ("cGMP"). The testing and approval process requires substantial time, effort and financial resources and there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable safety risk.

The results of the preclinical studies and clinical studies, together with detailed information on the manufacture and composition of the product, are submitted to the FDA in the form of a BLA requesting approval to market the product. Before approving a BLA, the FDA will inspect the facilities at which the product is manufactured, and will not approve the product unless cGMP compliance is satisfactory. The FDA may deny a BLA if applicable regulatory criteria are not satisfied, may require additional testing or information, and/or may require postmarketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurance that FDA approval of any BLA submitted by the Company will be granted on a timely basis, if at all. Also, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which the product may be marketed.

Both before and after approval is obtained, violations of regulatory requirements, may result in various adverse consequences, including the FDA's delay in approving or refusal to approve a product, withdrawal of an approved product from the market, and/or the imposition of criminal penalties against the manufacturer and/or license holder. For example, license holders are required to report certain adverse reactions to the FDA, and to comply with certain requirements concerning advertising and promotional labeling for their products. Also, quality control and manufacturing procedures must continue to conform to cGMP regulations after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with cGMP. Accordingly, manufacturers must continue to expend time, monies and effort in the area of production and quality control to maintain cGMP compliance. In addition, discovery of problems may result in restrictions on a product, manufacturer or holder, including withdrawal of the product from the market. Also, new government requirements may be established that could delay or prevent regulatory approval of the Company's products under development.

The Company will also be subject to a variety of foreign regulations governing clinical trials and sales of its products. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. At least initially, the Company intends, to the extent possible, to rely on foreign licensees, other than in Canada, to obtain regulatory approval for marketing its products in foreign countries.

In February 1997, the Company and Genentech, Inc. ("Genentech") submitted BLAs to the FDA for IDEC-C2B8 (rituximab) as a single agent therapy for the treatment of relapsed low grade or follicular non-Hodgkin's lymphoma. F. Hoffmann-La Roche Ltd ("Hoffmann-La Roche"), also submitted, through one of its subsidiaries in the European Union, a Marketing Authorization Application ("MAA") with the European Medicines Evaluation Agency ("EMA") for marketing IDEC-C2B8 in Europe. There can be no assurance that the FDA and the EMA approval of the BLAs and MAA submitted by the Company, Genentech and Hoffmann-La Roche will be granted on

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a timely basis, if at all, and delays in receipt or failure to receive regulatory approval could have a material adverse effect on the Company's business, financial condition and results of operations.

Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition," which generally is a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting a BLA. After the FDA

grants orphan drug designation, the generic identity of the therapeutic agent and its potential orphan use are publicly disclosed by the FDA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. If a product that has an orphan drug designation subsequently receives FDA approval for the indication for which it has such designation, the product is entitled to orphan exclusivity, i.e., the FDA may not approve any other applications to market the same drug for the same indication, except in certain very limited circumstances, for a period of seven years.

In 1994, the Company obtained orphan drug designation for IDEC-C2B8, IDEC-Y2B8 and IDEC-In2B8 from the FDA to treat low grade B-cell lymphoma. There can be no assurance that any of these compounds will receive orphan exclusivity for the low grade B-cell lymphoma indication, and it is possible that competitors of the Company could obtain approval, and attendant orphan drug exclusivity, for these same compounds for the low grade B-cell lymphoma indication, thus precluding the Company from marketing its products for the same indication in the United States. In addition, even if the Company does obtain orphan exclusivity for any of its compounds for low grade B-cell lymphoma, there can be no assurance that competitors will not receive approval of other, different drugs or biologics for low grade B-cell lymphoma. Although obtaining FDA approval to market a product with orphan drug exclusivity can be advantageous, there can be no assurance that the scope of protection or the level of marketing exclusivity that is currently afforded by orphan drug designation will remain in effect in the future.

#### Uncertainties Associated with Clinical Trials

The Company has conducted and plans to continue to undertake extensive and costly clinical testing to assess the safety, efficacy and applicability of its potential products. The rate of completion of the Company's clinical trials is dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the nature of the Company's clinical trial protocols, existence of competing protocols, size of the patient population, proximity of patients to clinical sites, changes in managed care and eligibility criteria for the study. Delays in patient enrollment will result in increased costs, which could have a material adverse effect on the Company. The Company cannot ensure that patients enrolled in the Company's clinical trials will respond to the Company's product candidates. Setbacks are to be expected in conducting human clinical trials. Failure to comply with the FDA regulations applicable to such testing can result in delay, suspension or cancellation of such testing, and/or refusal by the FDA to accept the results of such testing. In addition, the FDA may suspend clinical trials at any time if it concludes that the subjects or patients participating in such trials are being exposed to unacceptable health risks. Thus, there can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specific time period, if at all, with respect to any of the Company's potential products. Further, there can be no assurance that human clinical testing will show any current or future product candidate to be safe and effective or that data derived therefrom will be suitable for submission to the FDA or will support the Company's submission of a BLA.

#### Reliance on Third Party Development and Marketing Efforts

The Company has adopted a research, development and product commercialization strategy that is dependent upon various arrangements with strategic partners and others. The success of the Company's products is substantially dependent upon the success of these outside parties in performing their obligations, which include, but are not limited to, providing funding, performing research and development, fulfilling long term manufacturing demands and marketing, distribution and sales with respect to the Company's products. The Company's strategic partners may also develop products that may compete with the Company. Although the Company believes that its partners have an economic incentive to succeed in performing their contractual obligations, the amount and timing of resources that they devote to these activities is not within the control of the Company. There can be no assurance that these parties will perform their obligations as expected or that any revenue will be derived from such arrangements. The Company has entered into collaborative research and development and license agreements with Genentech, Zenyaku Kogyo, Ltd. ("Zenyaku"), SmithKline Beecham p.l.c. ("SmithKline Beecham"), Mitsubishi Chemical Corporation ("Mitsubishi"), Seikagaku Corporation ("Seikagaku") and Eisai Co., Ltd. ("Eisai"). These agreements generally may be terminated at any time by the strategic partner, typically on short notice to the

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Company. If one or more of these partners elect to terminate their relationship with the Company, or if the Company or its partners fail to achieve certain milestones, it could have a material adverse effect on the Company's ability to fund the related programs and to develop any products that may have resulted from such collaborations. There can be no assurance that these collaborations will be successful. In addition, some of the Company's current partners have certain rights to control the planning and execution of product development and clinical programs, and there can be no assurance that such partners' rights to control aspects of such programs will not impede the Company's ability to conduct such programs in accordance with the schedules currently contemplated by the Company for such programs and will not otherwise impact the Company's strategy.

#### Limited Manufacturing Experience and Dependence on Contact Manufacturer

The Company has not yet commercialized any therapeutic products. To conduct clinical trials on a timely basis, to obtain regulatory approval and to be commercially successful, the Company must manufacture its products either directly or through third parties in commercial quantities in compliance with regulatory requirements and at an acceptable cost. Although the Company has produced its products in the laboratory, scaled its production process to pilot levels and has the ability to manufacture limited commercial quantities of certain of its products, the Company has not received regulatory approval for such commercial production. The Company anticipates that production of its products in commercial quantities will create technical as well as financial challenges for the Company. The Company has limited experience in manufacturing, and no assurance can be given as to the ultimate performance of the Company's manufacturing facility in San Diego, its suitability for approval for commercial production or the Company's ability to make a successful transition to commercial production.

The Company is dependent upon Genentech to fulfill long term manufacturing demands for its IDEC-C2B8 product and SmithKline Beecham to fulfill all of the manufacturing requirements for IDEC-CE9.1. Genentech is currently constructing a larger manufacturing plant to satisfy such long term demands. The Company is considering the addition of another manufacturing facility to meet its long term requirements for additional products under development. Failure by the Company or its strategic partners to establish additional manufacturing capacity on a timely basis would have a material adverse effect on the Company.

In November 1996, the Company contracted with Covance Biotechnology Services, Inc. ("Covance") for the manufacture of the Company's antibody used in its IDEC-Y2B8 and IDEC-In2B8 products, which are radiolabeled for the treatment of non-Hodgkin's lymphoma. The Company is also developing this product in partnership with Genentech. The Company is dependent upon Covance to fulfill its manufacturing demands for clinical quantities of IDEC-Y2B8 and IDEC-In2B8. There can be no assurance that Covance will be able to complete any such manufacturing contract in a timely or cost-effective manner, if at all, or that the Company could obtain such capacity from others. Failure by Covance to meet the Company's manufacturing needs will result in delayed clinical trials for IDEC-Y2B8 and IDEC-In2B8 and may have a material adverse effect on the Company.

#### Patents and Proprietary Rights

The Company's success will depend, in large part, on its ability to maintain a proprietary position in its products through patents, trade secret and orphan drug designation. The Company has title or exclusive rights to one issued and nine allowed United States patents, 33 United States patent applications and numerous corresponding foreign patent applications, and has licenses to patents or patent applications of other entities. No assurance can be given, however, that the patent applications of the Company or the Company's licensors will be issued or that any issued patents will provide competitive advantages for the Company's products or will not be successfully challenged or circumvented by its competitors. Moreover, there can be no assurance that any patents issued to the Company or the Company's licensors will not be infringed by others or will be enforceable against others. In addition, there can be no assurance that the patents, if issued, would not be held invalid or unenforceable by a court of competent jurisdiction. Enforcement of the Company's patents may require substantial financial and human resources. Moreover, the Company may have to participate in interference proceedings if declared by the United States Patent and Trademark Office to determine priority of inventions, which typically take several years to resolve and could result in substantial cost to the Company.

A substantial number of patents have already been issued to other biotechnology and biopharmaceutical companies. Particularly in the monoclonal antibody field, competitors may have filed applications for or have been issued patents and are likely to obtain additional patents and proprietary rights relating to products or processes competitive with or similar to those of the Company. To date, no consistent policy has emerged regarding the

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breadth of claims allowed in biopharmaceutical patents, however, patents may issue with claims that conflict with the Company's own patent filings or read on its own products. There can be no assurance that patents do not already exist in the United States or in foreign countries or that patents will not be issued that would entail substantial costs to challenge and that, if unsuccessfully challenged, would have a material adverse effect on the Company's ability to market its products. Specifically, the Company is aware of several patents and patent applications which may affect the Company's ability to make, use and sell its products. Accordingly, the Company expects that commercializing monoclonal antibody-based products may require licensing and/or cross-licensing of patents with other companies in this field. There can be no assurance that the licenses, which might be required for the Company's processes or products, would be available, if at all, on commercially acceptable terms. The ability to license any such patents and the likelihood of successfully contesting infringement or validity of such patents are uncertain and the costs associated therewith may be significant. If the Company is required to acquire rights to valid and enforceable patents but cannot do so at a reasonable cost, the Company's ability to manufacture or market its products would be materially adversely affected.

The owners, or licensees of the owners, of these patents may assert that one or more of the Company's products infringe one or more claims of such patents. If legal action is commenced against the Company to enforce any of these patents and the plaintiff in such action prevails, the Company could be prevented from practicing the subject matter claimed in such patents. In such event or under other appropriate circumstances, the Company may attempt to obtain licenses to such patents. However, no assurance can be given that any owner would license the patents to the Company at all or on terms that would permit commercialization of the Company's products. An inability to commercialize such products could have a material adverse effect on the Company's operations and ability to pursue its long term objectives.

#### Additional Financing Requirements and Uncertain Access to Capital Markets

The Company has expended and will continue to expend substantial funds to complete the research, development, manufacturing and marketing of its products. The Company may seek additional funding for these purposes through a combination of new collaborative arrangements, strategic alliances, additional equity or debt financings or from other sources. There can be no assurance that such additional funds will be available on acceptable terms, if at all. Even if available, the cost of funds may result in substantial dilution to current shareholders. If adequate funds are not available from operations or additional sources of financing, the Company's business could be materially and adversely affected.

#### Limited Sales and Marketing Experience

Commercialization of the Company's products is expensive and time-consuming. The Company has adopted a strategy of pursuing collaborative agreements with strategic partners that provide for co-promotion of certain of the Company's products. In the event that the Company elects to participate in co-promotion efforts in the United States or Canada, and, in those instances where the Company has retained exclusive marketing rights in specified territories, the Company will need to build a sales and marketing capability in the targeted markets. The Company currently has limited marketing and sales personnel. There can be no assurance that the Company will be able to establish a successful direct sales and marketing capability in any or all targeted markets or that it will be successful in gaining market acceptance for its products. To the extent that the Company enters into co-promotion or other licensing arrangements, any revenues received by the Company will be dependent on the efforts of third

parties and there can be no assurance that such efforts will be successful. Outside of the United States and Canada, the Company has adopted a strategy to pursue collaborative arrangements with established pharmaceutical companies for marketing, distribution and sale of its products. There can be no assurance that any of these companies or their sublicensees will successfully market, distribute or sell the Company's products or that the Company will be able to establish and maintain successful co-promotion or distribution arrangements. Failure to establish a sales capability in the United States or outside the United States may have a material adverse effect on the Company.

#### History of Operating Losses; Accumulated Deficit

The Company has incurred annual operating losses since its inception in 1985. As of March 31, 1997, the Company's accumulated deficit was approximately \$86.0 million. Depending on the commercial success of IDEC-C2B8, the Company anticipates that it will continue to incur operating losses over at least the next one to two years. Such losses have been and will be principally the result of the various costs associated with the Company's research and development, clinical and manufacturing activities. The Company has not generated operating profits

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from the sale of its products. All revenues to date have resulted from collaborative research, development and licensing arrangements, contract manufacturing arrangements, research grants and interest income. The Company has no products approved by the FDA or any foreign authority and does not expect to achieve profitable operations on an annual basis unless product candidates now under development receive FDA or foreign regulatory approval and are thereafter commercialized successfully.

#### Possible Volatility of Stock Price

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market price of the Company's common stock, like the stock prices of many publicly traded biotechnology companies, has been highly volatile. Announcements of technological innovations or new commercial products by the Company or its competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the United States and foreign countries, public concern as to the safety of biotechnology products and economic and other external factors, as well as period-to-period fluctuations in financial results may have a significant impact on the market price of the Company's common stock. It is likely that, in some future quarter, the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's common stock would likely be materially adversely affected.

#### Uncertainties Regarding Health Care Reimbursement and Reform

The future revenues and profitability of biopharmaceutical companies as well as the availability of capital may be affected by the continuing efforts of government and third party payors to contain or reduce costs of health care through various means. For example, in certain foreign markets pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government controls. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could have a material adverse effect on the Company's business, financial condition or prospects.

The Company's ability to commercialize its products successfully will depend, in part, on the extent to which appropriate reimbursement levels for the cost of such products and related treatment are obtained from governmental authorities, private health insurers and other organizations, such as health maintenance organizations ("HMOs"). Third party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such

as HMOs, which could control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs may all result in lower prices for the Company's products. The cost containment measures that health care payors and providers are instituting and the effect of any health care reform could materially adversely affect the Company's ability to operate profitably.

#### Product Liability Exposure

Clinical trials, manufacturing, marketing and sale of any of the Company's or its strategic partners' pharmaceutical products or processes licensed by the Company may expose the Company to product liability claims. The Company currently carries limited product liability insurance. There can be no assurance that the Company or its strategic partners will be able to continue to maintain or obtain additional insurance or, if available, that sufficient coverage can be acquired at a reasonable cost. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products developed by the Company or its strategic partners. A product liability claim or recall would have a material adverse effect on the business and financial condition of the Company.

#### Environmental Concerns

The Company's research and development involves the controlled use of hazardous materials, chemicals and radioactive compounds. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could

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be held liable for any damages that result and any such liability could exceed the resources of the Company. In addition, disposal of radioactive materials used by the Company in its research efforts may only be made at approved facilities. Approval of a site in California has been delayed indefinitely. The Company currently stores such radioactive materials on site. The Company may incur substantial cost to comply with environmental regulations.

#### PART II -- OTHER INFORMATION

- ITEM 1. LEGAL PROCEEDINGS. None
- ITEM 2. CHANGES IN SECURITIES. None
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS. None
- ITEM 5. OTHER INFORMATION. None
- ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibit.

The following exhibit is referenced.

Exhibit Number -----	Description -----
27.1	Financial Data Schedule.

(b) Reports on Form 8-K. None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IDEC PHARMACEUTICALS CORPORATION

Date: May 13, 1997  
-----

By: /s/ William H. Rastetter  
-----  
William H. Rastetter  
Chairman, President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 13, 1997  
-----

By: /s/ Phillip M. Schneider  
-----  
Phillip M. Schneider  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS AND CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS CONTAINED IN THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIALS STATEMENTS AND THE NOTES THERETO.

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